

## **REPORT OF THE CHIEF LEGISLATIVE ANALYST**

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DATE: April 4, 2016

TO: Honorable Members of the Ad Hoc Comprehensive Job Creation Plan Committee

FROM: Sharon M. Tso *mtso* Council File No: 12-1549-S3, 14-0425  
Chief Legislative Analyst Assignment No: 15-02-0091

SUBJECT: Funding for City-Owned Properties Designated for Economic Development Use

### **SUMMARY**

The City Administrative Officer (CAO) prepared a report on a proposed framework for designating City-owned property for economic development uses and the creation of the Economic Development Trust Fund (CAO Report) (C.F. 12-1549-S3) on October 28, 2014. The CAO Report makes several recommendations, including:

- 1) Establishing a new process/framework for the sale of City-owned property for economic development and other uses (see Attachment A: Asset Evaluation Framework);
- 2) Depositing the proceeds from the sale or lease of property designated for economic development purposes into a new Economic Development Trust Fund (EDTF); and
- 3) Authorizing the Economic Workforce Development (EWDD) to administer the EDTF for expenditures including public infrastructure, development subsidies, or technical assistance that supports economic development projects or programs.

The proposed new process for disposition of properties for economic development is separate and distinct from the existing surplus property sales process. The surplus property sales process will remain the same. The proceeds from the sale of surplus properties will continue to be divided equally between the General Fund and the pertinent Council District's Real Property Trust Fund (see Attachment B: Surplus Property Disposal Process).

The Economic Development Committee requested this Office to report on the proposed process. This Office recommends approval of the following recommendations as noted in the CAO report: establish the EDTF; designate EWDD as administrator of the EDTF; and instruct EWDD to develop guidelines for the expenditure of EDTF funds. However, this Office recommends amending other recommendations contained in the October 28, 2014 CAO report as noted below. The recommendations adopted by the Committee and Council should be incorporated into the future economic development strategy that EWDD is currently developing.

First, the CAO Report recommended that all net proceeds from the sale of properties designated for economic development purposes be deposited in the EDTF. In order to align more closely with the surplus property sale policy, it is recommended that fifty percent of the proceeds from sale or lease of City-owned property that has been designated for economic development use be deposited into the EDTF for future economic development projects and that the remaining fifty percent of the proceeds be deposited in the Real Property Trust Fund for the Council District in which the proceeds were generated. Proceeds from such sales of property for economic development purposes that are deposited in the EDTF and the Council District's Real Property Trust Fund should be used solely for economic development purposes. The City Council should request the City Attorney's Office to prepare and present an ordinance to establish the new EDTF.

Second, the ordinance governing the Council District Real Property Trust Funds (Los Angeles Administrative Code Section 5.500) does not currently allow for funds to be used for certain economic development purposes, such as public infrastructure, development and operational subsidies, and technical assistance that supports economic development projects or programs. The CAO recommended that the ordinance be amended to allow for these activities.

Additionally, we recommend that eligible EDTF expenditures should include:

- Citywide or neighborhood economic development planning;
- Projects creating a significant number of net new jobs within the City of Los Angeles; and
- Economic development projects located in areas with one of the following characteristics: high unemployment, lower than average wages, stagnant property values, or project areas of the former CRA/LA.

In order to allow for these types of expenditures, the Administrative Code would require an amendment. The City Attorney's Office should provide necessary amendments to this and other applicable ordinances to implement the recommendations set forth in this report, should they be adopted.

Third, this Office recommends adding to the proposed framework that the CAO, Chief Legislative Analyst (CLA), and the affected Council Office be provided with an opportunity to review and approve any Request for Proposals (RFP) that will be issued for the sale of City-owned property for economic development. This is to ensure that the appropriate scope, goals and objectives are met.

Lastly, the October 28, 2014 report recommended a change to the makeup of the Municipal Facilities Committee (MFC) to include the General Manager of EWDD as an ex-officio non-voting member. We recommend that the Municipal Facilities Committee (MFC) remain as it is currently structured (Mayor, CLA, and CAO). The General Manager of EWDD, like other General Managers, may attend, report and contribute at the MFC meetings

#### Rents from Future Development Properties

In addition to the CAO Report, Motion (Cedillo - Buscaino) (C.F. 14-0425), which was adopted by Council on December 16, 2014, instructed the CLA to report with a policy on how funds will be appropriated to the EDTF, including the rents received from properties conveyed to the City for economic development purposes from the former Community Redevelopment Agency of the City of Los Angeles (CRA/LA) (Future Development Properties). Two of the Future Development Properties are currently occupied by tenants that are paying rent. The total rental revenue from these properties is approximately \$40,000 per year, which the Department of General Services (GSD) is currently collecting. GSD has assumed maintenance responsibilities for the ten Future Development Properties and we recommend depositing the rental revenue from these Future Development properties into the EDTF for GSD to use to maintain the Future Development Properties.

#### **RECOMMENDATIONS**

That the Council, subject to the approval of the Mayor:

1. APPROVE the attached Asset Evaluation Framework (Attachment A) and AUTHORIZE the Municipal Facilities Committee to designate qualified City properties for economic development or other use, and to assign to appropriate City departments for implementation, subject to Council approval, all in conformance with the procedures outlined in this report; and

That the Council:

2. INSTRUCT heads of all departments, with the exception of Harbor, Airports, and Water and Power, to submit all requests for utilization, acquisition, relocation, transfer or disposition of City property to the Municipal Facilities Committee through the CAO's Asset Management Strategic Planning (AMSP) unit, for consideration as outlined in this report;
3. REQUEST the City Attorney's Office to prepare and present an ordinance to establish a new interest-bearing Economic Development Trust Fund (EDTF), to be administered by the Economic Workforce Development Department (EWDD), to receive eligible proceeds from the sale or lease of City property for economic development purposes, in accordance with expenditure guidelines to be prepared by EWDD; and
4. AUTHORIZE EWDD to serve as Fund Administrator of the new EDTF and to administer the disbursement of such funds for economic development projects and programs, in accordance with the EDTF ordinance to be drafted and considered under separate cover.
5. INSTRUCT the Office of the CAO and EWDD to report to Council and Mayor with proposed staffing recommendations to assist with implementation of the City's economic development goals concerning City property;
6. DIRECT the CAO Asset Management Strategic Planning unit and EWDD to report annually to the Mayor and Council detailing property evaluations requested, under review, and completed, and an update on the status of all properties being reused or redeveloped for non-municipal purposes.
7. REQUEST the City Attorney's Office to prepare an ordinance amending Section 5.500, Chapter 100, Division 5 of the Los Angeles Administrative Code to allow Real Property Trust Funds to be used for economic development projects or programs, including public infrastructure, development subsidies, or technical assistance;
8. REQUEST the City Attorney's Office to present any amendments necessary to the Los Angeles Administrative Code in order to effectuate the recommendations contained within this report;
9. AUTHORIZE the Controller to establish an account in the new EDTF authorized to collect fifty percent (50%) of the proceeds from the sale or lease of economic development properties, pursuant to the guidelines to be provided by EWDD and Controller instructions to be provided by EWDD;
10. AUTHORIZE the Controller to establish an account in each of the Council Districts' Real Property Trust Fund to collect the remaining fifty percent (50%) of the proceeds from the sale or lease of economic development properties, pursuant to the guidelines provided by EWDD and Controller instructions;
11. AUTHORIZE the Controller to direct fifty percent of proceeds from the sale or lease of City-owned property that has been designated for economic development use to the EDTF to be administered by EWDD and the remaining fifty percent of the proceeds to the Real Property Trust Fund for the Council District in which the property is located;
12. DIRECT that rents collected by the General Services Department from the tenants of CRA/LA Future Development Properties be transferred to the EDTF; and

13. INSTRUCT EWDD to formulate and report to the Municipal Facilities Committee with specific guidelines for the expenditure of EDTF Funds for consideration by the Municipal Facilities Committee and consider adding the following criteria:
  - a. Project areas of the former CRA/ LA;
  - b. Areas with unemployment levels that exceed the City of Los Angeles average;
  - c. Areas where the average income is lower than the City of Los Angeles average;
  - d. Designated Federal, State or local economic development zones;
  - e. Citywide or neighborhood economic development planning activities;
  - f. Staff to carry out the economic development goals of the City of Los Angeles; and/ or
  - g. Projects generating a significant number of net new jobs in the City of Los Angeles.

## **BACKGROUND**

The CAO provided a report to the Municipal Facilities Committee (MFC) which was approved on July 31, 2014. It was then approved by the Innovation, Technology and General Services Committee on December 9, 2014. The Economic Development Committee considered the CAO Report on February 24, 2015 and approved the recommendations related to the establishment of a framework for designating City-owned property for economic development and other uses. However, the Economic Development Committee instructed the CLA and EWDD to further report on the establishment of the EDTF and its sources of funding.

In addition, on December 16, 2014, the Council adopted Motion (Cedillo - Buscaino) (C.F. 14-0425) that instructed the CLA to report with a policy on how funds will be appropriated to the EDTF, including the rents received from properties conveyed to the City for Economic development purposes from the former Community Redevelopment Agency of the City of Los Angeles (CRA/LA Future Development Properties).

### EWDD and Economic Development Funding

The City commissioned a study by HR&A Advisors, Inc. in 2012 to study best practices from economic development efforts in other cities and make recommendations for the future of economic development in the City of Los Angeles. The study, entitled "Economic Development in Los Angeles: A New Approach for a World Class City," was published December 2012 (C.F. 08-3050). The report recommended the creation of a City department dedicated to economic development with stable and sustainable sources of revenue to fund economic development activities as well as the flexibility to incubate new ideas and projects and respond to changing priorities and economic needs based on shifting market factors and conditions. Since the disbanding of the CRA/LA, the City of Los Angeles has not yet identified new and flexible sources of funding to carry out economic development activities.

The EWDD was established in 2013 (C.F. 08-3050) in order to address the gap in economic development function created by the dissolution of the CRA/LA. The Economic Development Division (EDD) of EWDD was intended to consolidate certain economic development functions from existing City entities as well as to develop new capacities. The mission of the EDD is to promote business growth and job creation in economically depressed areas of the City. The ordinance provided EWDD with the authority to convey City-owned property outside the otherwise-mandated surplus property route (see Attachment B) as long as the property provides economic development benefits for the City.

To date, the City has not identified new funding sources to carry out activities to achieve its economic development goals. The Community Development Block Grant Program (CDBG) remains the sole source of funding to carry out economic development activities. However, HUD regulations limit the use and expenditure amount of CDBG funds. In the 2014-2015 budget, EWDD received an allocation from the City's General Fund of approximately \$600,000 which is dedicated to salaries and related costs. In the adopted 2015-2016 budget, \$1,000,000 has been allocated to EWDD for salaries and related costs for real estate and asset management-related positions.

### Surplus Property Procedure

The State of California and the City of Los Angeles both have requirements for the declaration of public land as surplus property for disposition. GSD Real Estate Services administers the City's surplus property process, as described in Los Angeles Administrative Code (LAAC) Sec. 7.21 (also see Attachment B). When directed by Council motion, GSD verifies that the City has a saleable interest, and offers the property to other public agencies for purchase. GSD also requests reports from City Planning and the Bureau of Engineering (BOE) with regard to development limitations or vested City rights such as easements. These reports are forwarded to the CAO to review and make recommendations to Council. The process takes a minimum of six to nine months, but generally has taken much longer. Once a property is declared surplus, the City can solicit a buyer through a public auction with oral or sealed bids, or a direct private sale with public benefit findings. With the exception of properties purchased with special funds that may have specific payback requirements, sales proceeds are divided evenly between the General Fund and the Real Property Trust Fund of the appropriate Council District. This process would remain unchanged by the recommendations in this report (i.e., sales proceeds would continue to be evenly distributed between the City's General Fund and the Council District Real Property Trust Fund).

### New Proposed Framework for Sale of Economic Development Property

The CAO Report proposed a new process/framework for designating property for economic development use (see Attachment A of the CAO Report) that is separate and distinct from the surplus property process described above. The process would start with a motion from the City Council. The motion would direct the CAO Asset Management Strategic Planning unit and any other relevant City department to evaluate the feasibility of using the property for economic development purposes. The CAO and relevant City departments would either recommend or not recommend use of the City-owned property for economic development, which would then be transmitted to MFC for consideration, followed by consideration by the City Council. If approved for economic development use, the property would be assigned to EWDD to begin the work necessary to convey the property.

It is recommended that when EWDD seeks to convey property for economic development, that any request for proposals, request for qualifications, or other similar document should first reviewed by the CAO, CLA and the affected Council Office. Lastly, the terms of the conveyance of the property would return to the MFC and the Council for final approval.

The CAO Report also recommended dedicating the sale or lease proceeds from City-owned property that had been designated for economic development use to the EDTF. We recommend establishing the EDTF, but suggest that fifty percent of the sale proceeds be deposited to the EDTF and the remaining fifty percent be deposited in the Real Property Trust Fund of the Council District in which the proceeds were generated to more closely align with the current surplus property process. In addition, we recommend that the Real Property Trust Fund ordinance be amended to allow for economic development use, including public infrastructure, development subsidies, or technical assistance.

In addition, we recommend that guidelines for the use of the funds be established to ensure that economic benefits from the sale of such properties are directed to areas of need within the City. Funds should be spent on Citywide or neighborhood economic development planning, projects that create a significant number of net new jobs within the City of Los Angeles, or spent in an area of the City with one of the following characteristics: higher than average unemployment, lower than average wages, a Federal, State or locally designated economic development zone, or Project Areas of the former CRA/LA.


We also recommend dedicating the rents from existing tenants of CRA/LA Future Development Properties to the EDTF to defray maintenance costs on such properties. As part of the Option Agreements, the City has agreed to assume maintenance responsibilities for all of the ten properties designated as Future Development Properties. Two of these (the Watts Train Station TOD site and

First/Mission TOD Site) are currently occupied by tenants who pay a total of approximately \$40,000 per annum in rents. Rents from these properties are currently authorized for collection by the City's General Services Department (GSD) until a use for the funds is identified. Although the amount is very low, it is recommended that these funds be directed to the EDTF in order to defray the maintenance costs for the Future Development Properties.

Lastly, we have provided a revised framework as Attachment A to clarify the involved parties and their roles in the proposed asset evaluation process.

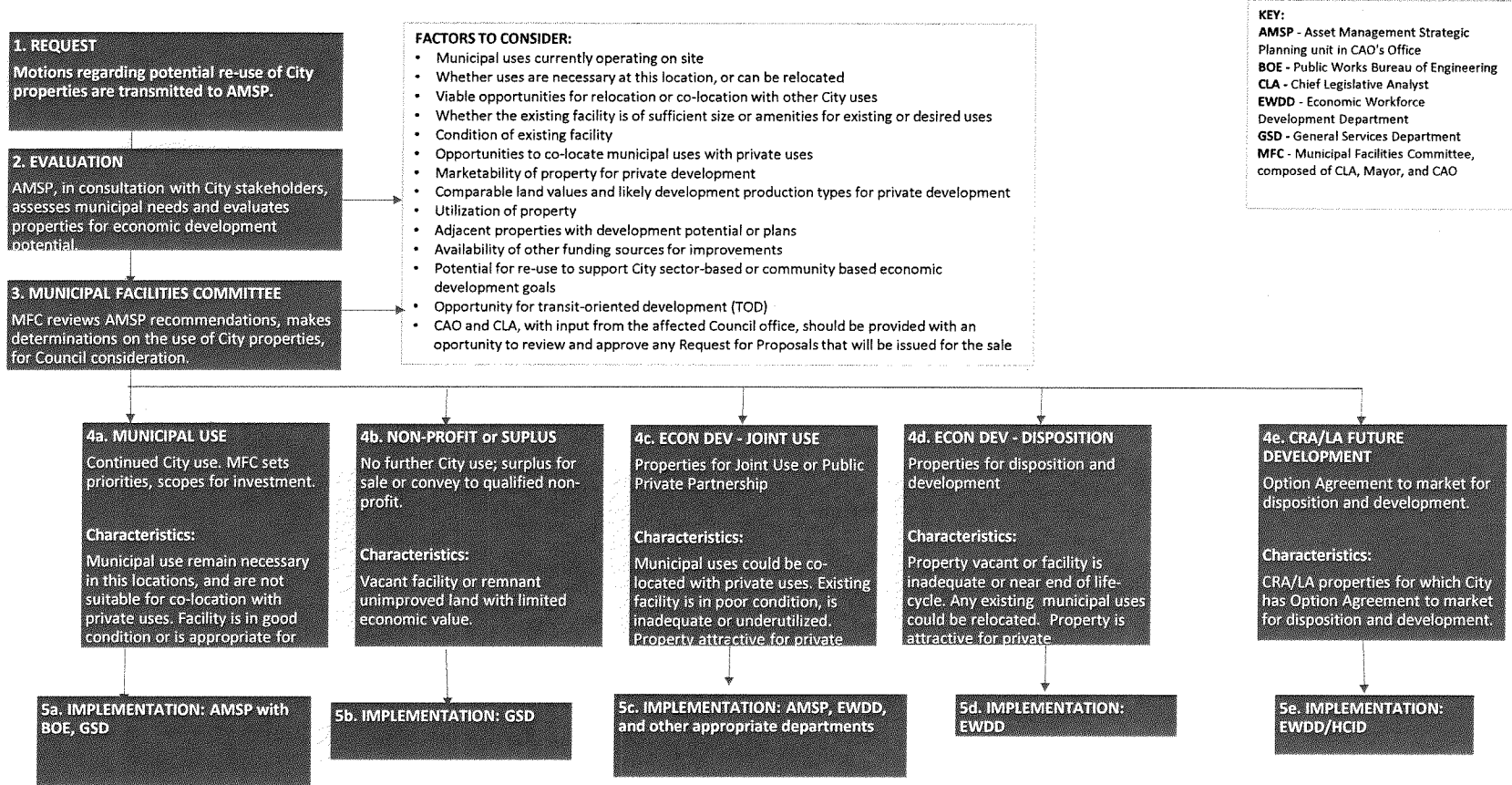
**FISCAL IMPACT**

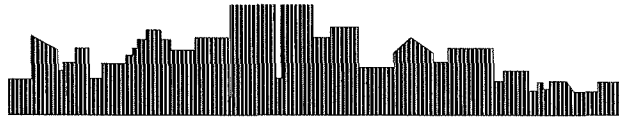
The recommendations have no immediate impact on the General Fund. The recommendations will result in the dedication of fifty percent of sale or lease proceeds from City-owned properties that have been designated by the City Council for economic development use to the proposed EDTF. The remaining fifty percent will be deposited in the Real Property Trust Fund of the Council District in which the proceeds were generated.

  
Cheryl Banafes  
Legislative Analyst

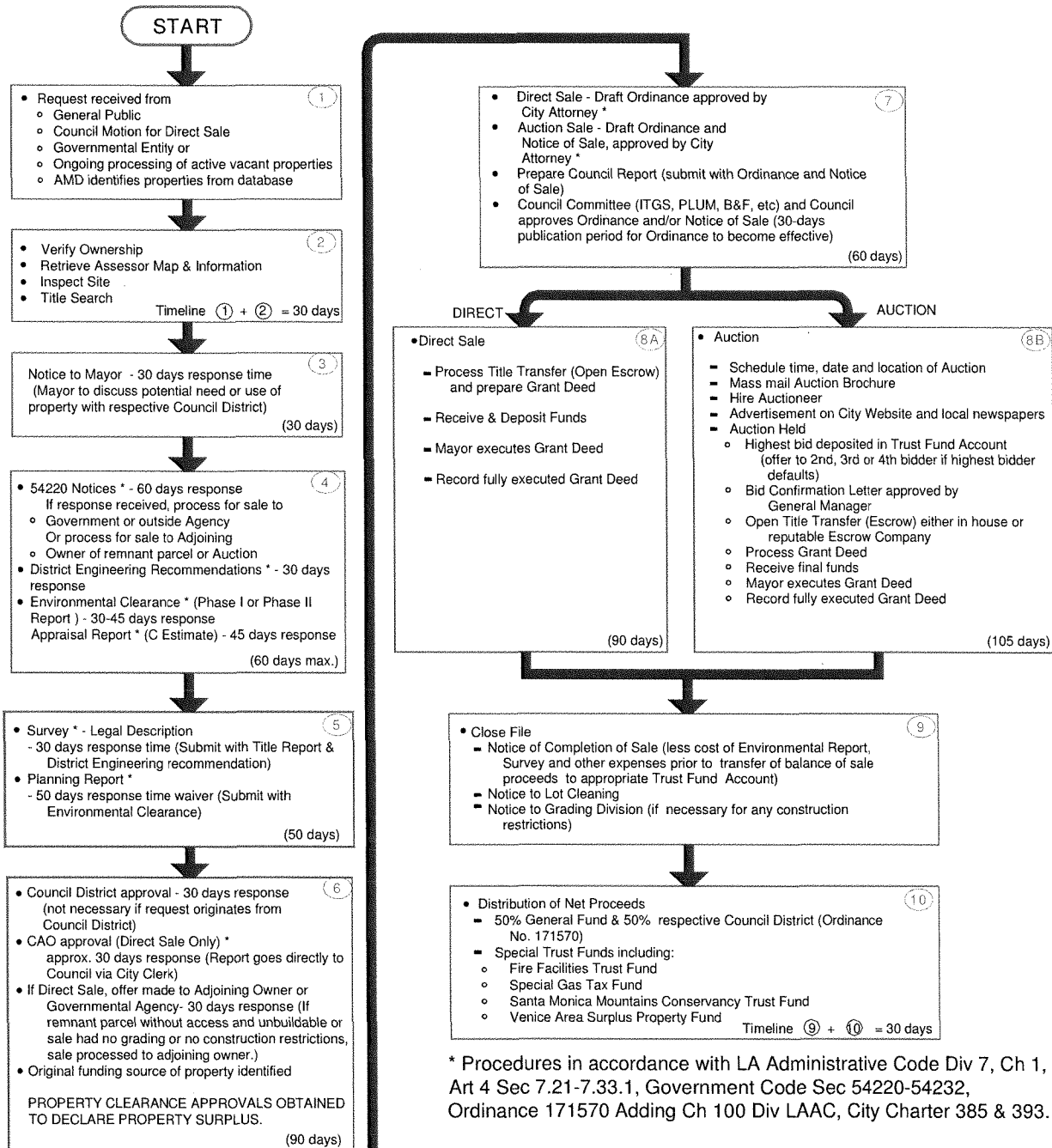
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**ATTACHMENT A: Asset Management Strategic Planning  
Asset Evaluation Framework  
CLA Recommendations**





# SURPLUS PROPERTY PROCEDURE



\* Procedures in accordance with LA Administrative Code Div 7, Ch 1, Art 4 Sec 7.21-7.33.1, Government Code Sec 54220-54232, Ordinance 171570 Adding Ch 100 Div LAAC, City Charter 385 & 393.

## DIRECT SALE / AUCTION